

BOSNA I HERCEGOVINA
FEDERACIJA BOSNE I HERCEGOVINE
Federalno ministarstvo poljoprivrede,
vodoprivrede i šumarstva

BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
Federal Ministry of Agriculture, Water
Management and Forestry



FINANCIAL MANAGEMENT PROCEDURES

**For Project Water and Sanitation in the Federation of
Bosnia and Herzegovina**

**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA**

FEDERAL MINISTRY OF AGRICULTURE WATER MANAGEMENT AND FORESTRY

PROJECT MANAGEMENT UNIT - PMU

FINANCIAL MANAGEMENT PROCEDURES

for Project

WATER AND SANITATION IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Version 1

September 2015

Issue and Revision Record

Issue	Date	Issued on behalf of PMU by	Description
1	08/06/2015	I. Hašimbegović T. Gašević N. Anđelić	Revision of Financial Procedures Manual document

Contents

Issue and Revision Record	2
Contents	3
List of abbreviations	4
1 Introduction	5
2 Financial Management Procedures	5
2.1 Transmission of Contract Information to PMU	5
2.2 Payments to Contractors	5
2.2.1 Presentation of Invoices	5
2.2.2 Checking of Invoices	6
2.3 Payments to the Central Supervision Consultant	8
2.4 Request to EUD for VAT Exemption	9
2.4.1 Certificate of VAT Exemption	9
2.5 Reclaim of VAT by Municipality	10
2.6 Certificate of Import Duty Exemption	10
2.7 Payment and Recording Process	11
2.8 Payment Completion	11
3 Financial Reporting	12
Appendix A: Contractor Payment Procedures Flowchart	13
Appendix B: PMU Financial Reporting and Recording System	14

List of Abbreviations

Abbreviation	Meaning
BiH	Bosnia and Herzegovina
CB	Commercial Bank
CSC	Central Supervision Consultant
DEU	Delegation of the European Union to BiH
EC	European Commission
EIB	European Investment Bank
EU	European Union
FBiH	Federation of Bosnia and Herzegovina (also the "Federation")
FMF	Federal Ministry of Finance
FMoAWMF	Federal Ministry of Agriculture, Water Management and Forestry, FBiH
FS	Feasibility study
IFI	International Financing Institution
IPA	Instrument for Pre-accession
IPF	Infrastructure Project Facility
IPF2	Infrastructure Project Facility -Technical Assistance Window, (COWI Consortium)
IPF3	Infrastructure Project Facility -Technical Assistance Window, (Mott MacDonald Consortium)
IR	Inception Report
Mott MacDonald-IPF Consortium	The Consortium carrying out the IPF3 project
MTF	Ministry of Finance and Treasury – BiH
OLP	On-lending Policy Document
PF	Project Fiche
PIP	Project Implementation Plan
PIT	Project Implementation Team
PM	Project Manager
PMU	Project Management Unit
PFS	Pre-feasibility Studies
PPF	Project Preparation Facility
SDM	Sector for Debt Management
SIDA	Swedish International Development Cooperation Agency
TA	Technical Assistance
TD	Tender Documentation
ToR	Terms of Reference
WA	Water Agency
WATSAN FBiH	Project Water and Sanitation in the Federation of Bosnia and Herzegovina
WBIF	Western Balkans Investment framework
WWTP	Wastewater Treatment Plant
YB	Yellow Book

1 Introduction

This Financial Management Procedures (FMP) document is the revision of previously developed Financial Procedure Manual (FPM) that was designed to explain financial procedures which will be used in the Project WATSAN FBiH, as required by the Finance Contract and Grant Agreements concluded between Bosnia and Herzegovina, Federation of Bosnia and Herzegovina and European Investment Bank.

Overall implementation of the Project WATSAN FBiH is organised at two levels; Entity level, for which the activities are conducted by the WATSAN FBiH Project Management Unit (PMU), as the party responsible for overall implementation of the Project, and municipal level, for which the activities are managed and conducted by municipal Project Implementation Teams (PITs). Overall WATSAN FBiH Project procedures are described in the Project Procedures Manual (PPM).

This document describes procedures for management of payments, recording and financial reporting among different parties involved. This is a dynamic document and will be updated as necessary.

2 Financial Management Procedures

2.1 Transmission of Contract Information to PMU

Upon conclusion (signing) of any contract between a participating municipality and a contractor (service provider/consultant/supplier), two original hard copies of the signed contract shall be delivered to PMU.

2.2 Payment to Contractors

2.2.1 Presentation of Invoices

A Payment Certificate (Advance, Interim or Final) is a document that testifies to the delivery of goods, completion of services or execution of works which, upon approval, creates an obligation to pay for such goods, services or works.

An invoice obliges the Investor to pay to the Supplier/Contractor/Consultant the amount indicated in the invoice, in accordance with the payment terms.

Each Payment Certificate must be/contain:

1. Original, stamped, dated and signed by the Supplier's / Contractor's / Consultant's authorized representative,
2. Addressed to the Municipality,
3. A reference to the Contract,
4. The date and place of issue,
5. Date of payment and instructions for payment,
6. Detailed description of the works/services, unit price, any retained amount for the advance utilization and shall include the currency for payment,
7. Correctly calculated amounts,
8. Correctly calculated VAT,
9. If the Payment Certificate is financed from IPA sources there must be clause referring to Law on Value Added Tax („ Official Gazette", No. 9/05, 35/05 and 100/08).

Only original Payment Certificates will be processed and paid. Copies sent by fax or e-mail will not be approved.

2.2.2 Checking of Invoices

Upon receiving the Payment Certificate from the Contractor, the Central Supervision Consultant (CSC) will check the submitted documentation, shall within 7 (seven) days sign and stamp it as approved for payment and submit to Protocol of the Municipality or, if not approved, return it to the Contractor.

Head of PIT shall ensure that Payment Certificate, certified by the CSC, is reviewed. The PIT, Head of the Project and the Mayor, together with the additional technical expert from the Water Agency (nominated by the Decision), shall approve the Payment Certificate, or shall submit comments to the CSC if necessary, within 3 (three) days. Upon approval of Payment Certificate by the above mentioned persons, PIT shall send the documentation to the FMoAWMF Protocol-addressed to PMU.

Documents to be transferred to PMU, in 4 (four) copies

For payments subject to VAT (loan, SIDA grant, municipality's own resources);

1. Request for payment from Municipality – all 4 signed,
2. A/I/F Payment Certificate (original) – all 4 signed,

3. Proof that PDV has been paid to the Contractor (bank statement and original payment slip),
4. In the case of advance payment - appropriate bank guarantee and a copy of the contract establishing conditions for advance payment.

For payments exempt from VAT;

1. Request for payment from the Municipality – all 4 signed,
2. A/I/F Payment Certificate (original) – all 4 signed,
3. Statement for VAT exemption,
4. In the case of advance payment - appropriate bank guarantee and a copy of the contract establishing conditions for advance payment.

If payment of V.A.T. is required the Municipality shall pay the appropriate amount directly to the Contractor's account. Proof that V.A.T. has been paid, comprising bank statement and original payment slip, shall be submitted to PMU.

In the case that documentation is not complete, PMU will request additional documentation or will send it back for correction. The date of reception of the documentation is the date when the documentation is received at the PMU as complete.

After PMU receives the documentation, Technical coordinator from the Water Agency – the PMU member, approves and signs the Payment Certificate.

The PMU Procurement Expert (PE) reviews and approves with signature received documentation and sends it as such to the Financial Expert (FE) of PMU, who will check the breakdown of the Payment Certificate against the undisbursed portion of the liability shown on the Contract payment record, approve, sign and prepare the Payment Order and send it to Head of PMU who will authorize the payment.

Head of PMU shall verify and sign the Payment Certificate and Payment Order and submit the Payment Order to be signed by FMOAWMF Minister. All activities at PMU should be completed in 7 (seven) days.

Upon signature of the FMOAWMF Minister, PMU shall submit the payment request documents to the Protocol of the Federal Ministry of Finance (FMF), addressed to the Sector for Debt Management (SDM). SDM protocol will deliver the documentation on the same day, or the next day as the latest, to the SDM. The SDM officer will verify the payment claim by carrying out the following checks:

- Whether the payment order corresponds to the account paid,
- Whether the order was signed by an authorized person,

- Whether the Payment Invoice is approved by PMU,
- In the case of advance payment, whether there is appropriate bank guarantee issued and delivered a copy of the contract establishing conditions for advance payment.

Upon signing the payment order by relevant FMF financial expert and FMF Minister, the PMU submits complete documentation to the Bank for payment. After payment completion by the Bank, PMU will send electronically a bank statement to PIT and SDM at FMF for recording the payment.

The total time elapsed between receipt of the Payment Certificate by the PIT and PMU's payment order to the Bank (payment to the Contractors/ Consultants) shall not exceed 28 days.

If payment is delayed the Contractor will be entitled to payment of interest, in accordance with the works contracts.

2.3 Payments to the Central Supervision Consultant

This payment certificate is addressed to FMoAWMF, and will be sent to the protocol of FMoAWMF- for Sector PMU. PMU Procurement Expert (PE) reviews and approves it with signature and sends it to PMU Financial Expert (FE) who will check the breakdown of the Payment Certificate against the undisbursed portion of the liability shown on the Contract payment record, approve, sign and prepare the Payment Order and send it to Head of PMU to authorize the payment. All activities at PMU should be completed in 3 (three) days.

Head of PMU shall verify and sign the Payment Certificate and Payment Order and submit the Payment Order to be signed by FMoAWMF Minister.

After FMoAWMF Minister signing, PMU shall submit the payment request documents to the protocol of Federal Ministry of Finance (FMF) addressed to the Sector for Debt Management. Protocol will deliver documentation the same day, or at the latest next day to the SDM. The SDM officer will verify the payment claim by carrying out the following checks:

- Whether the payment order corresponds to the account paid,
- Whether the order was signed by an authorized person,
- Whether the Payment Invoice is approved by the PMU,
- In the case of advance payment, whether there is appropriate bank guarantee issued and delivered a copy of the contract establishing conditions for advance payment.

Upon signing the payment order by relevant FMF financial expert and FMF Minister, the PMU submits complete documentation to the Bank for payment. After payment completion by the Bank, PMU will send electronically a bank statement to CSC and SDM at FMF for recording the payment.

2.4 Request to EUD for VAT Exemption

Contracting Authority (Municipality) engages the Contractor for the execution of a works contract in which the accepted contract value is divided by source of financing in the following parts:

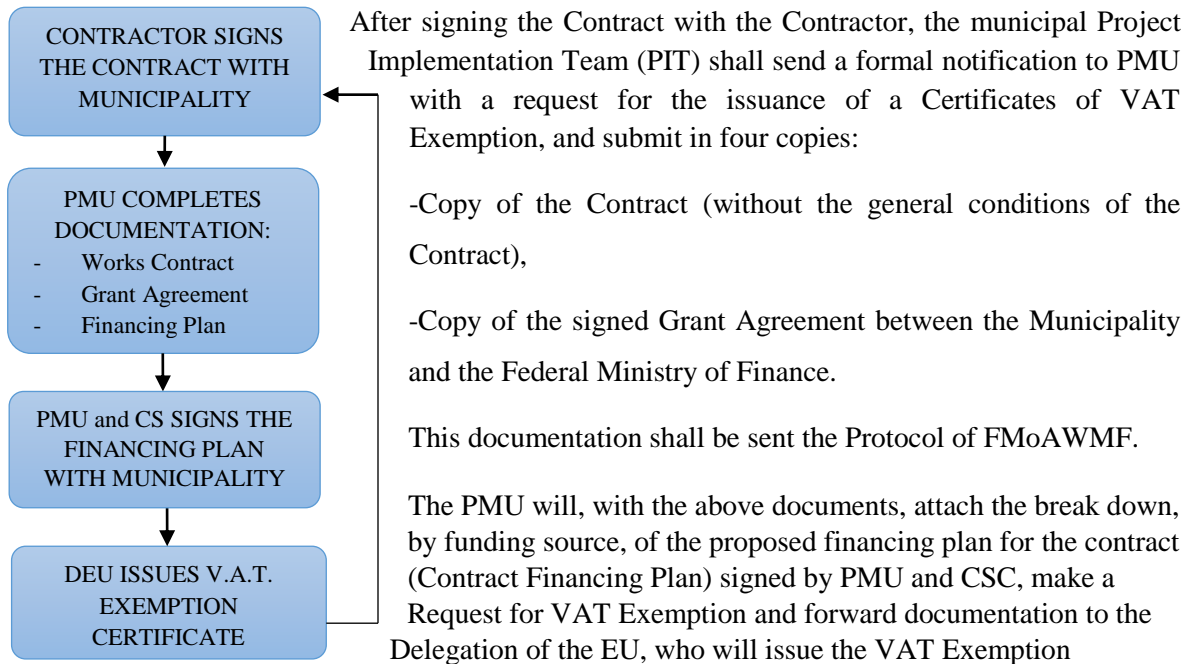
Part 1, which is intended to be financed by grant funds from IPA funds, which are exempt from paying VAT, pursuant to the Law on Value Added Tax ("Official Gazette", No. 9/05, 35/05 and 100/08), where it is stipulated that the supply of goods and services within the framework of projects financed under the Instrument for Pre-Accession Assistance (IPA) is exempt from V.A.T. and customs duties.

Part 2, which is provided for financing from:

- Loan funds, according to the agreement concluded between the Municipality and the Federation of Bosnia and Herzegovina, represented by the Federal Ministry of Finance, which are provided by the European Investment Bank (EIB),
- Municipal own resources, and
- Other sources.

Payment per accepted contracted values from these sources of financing will be subject to the calculation of VAT in accordance with the Law on value Added Tax (" Official Gazette" , No. 9/05 , 35/05 and 100/08).

2.4.1 Certificate of VAT Exemption



Certificate. After the Certificate has been issued it comes to PMU and PMU informs the Municipality about taking it.

2.5 Reclaim of VAT by Municipality

Municipality is authorized for V.A.T. reclaim, according to Article 29, paragraph 1, line 4 of the Law on V.A.T. (Official Journal of BiH 9/05, 35/05 and 100/08). Payments which are subject of procurement within the reconstruction Projects in BiH financed by the international institutions have legal right for reimbursement of amounts which are paid for V.A.T. Furthermore, in the same Article, paragraph 2, is stated that payments which are subject of procurement in Projects financed by the Instrument for Pre-accession Assistance are exempted of V.A.T.

Municipality will submit to their respective Indirect Taxation Authority (ITA) - Regional Headquarters request for V.A.T. reclaim with the following documentation attached:

- Copy of Contract work/service,
- Copy of signed Contractors Invoice,
- Copy of Loan Agreement FBiH FMF – Municipality,
- Bank statement and original payment slip with amount of paid V.A.T,
- Filled and signed request in (ITA) form.

Indirect Taxation Authority (ITA) - Regional Headquarters will approve reclaim of V.A.T and return the amount paid for V.A.T. to the Municipality bank account.

2.6 Certificate of Import Duty Exemption

After signing the Contract with the Contractor, the municipal Project Implementation Team (PIT) shall send a formal notification to PMU with a request for the issuance of a Certificate of import duties exemption, and submit in four copies the following:

- Copy of the Contract (without the general conditions of the Contract),
- Statement signed by the Municipality,
- Specification of goods to be imported signed by the Contractor, the Municipality, Central Supervision and the Minister from FMoAWMF,
- Copy of previously issued VAT exemption Certificate.

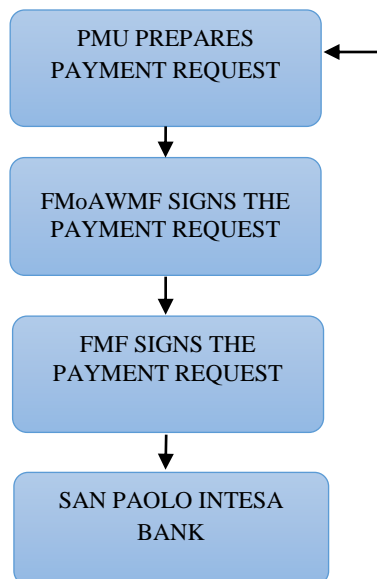
The PMU Procurement Expert (PE) reviews and approves the Specification and sends it to PMU Financial Expert (FE) who will check the rest of the documentation and send it to the Head of PMU for signature. FE prepares the Request for import duties exemption and

forwards the documentation to the Delegation of the EU, who will issue the Import Duties Exemption Certificate.

After the Certificate has been issued it comes to PMU who informs the municipality about taking it.

2.7 Payment and Recording Process

Payment Certificates submitted by the Municipality to the PMU shall be checked by TE and additional person from WA, PE and FE and then verified by Head of PMU, who will issue Payment Order to be signed by authorized persons from FMoAWMF and FMF.



Responsible financial expert from FMF will check all authorised signatures and documentation completeness and sign the internal document approving the payment order and send the payment order to be signed by FMF Minister. After signing by the FMF Minister, the documentation will be submitted back to the PMU.

PMU will submit Payment Order to the Bank for the payment. PMU shall maintain a special account at its commercial bank (CB) with sufficient funds for 3 months' payment, in accordance with the Loan Agreement with EIB Agreement and the IPA Grant Agreements.

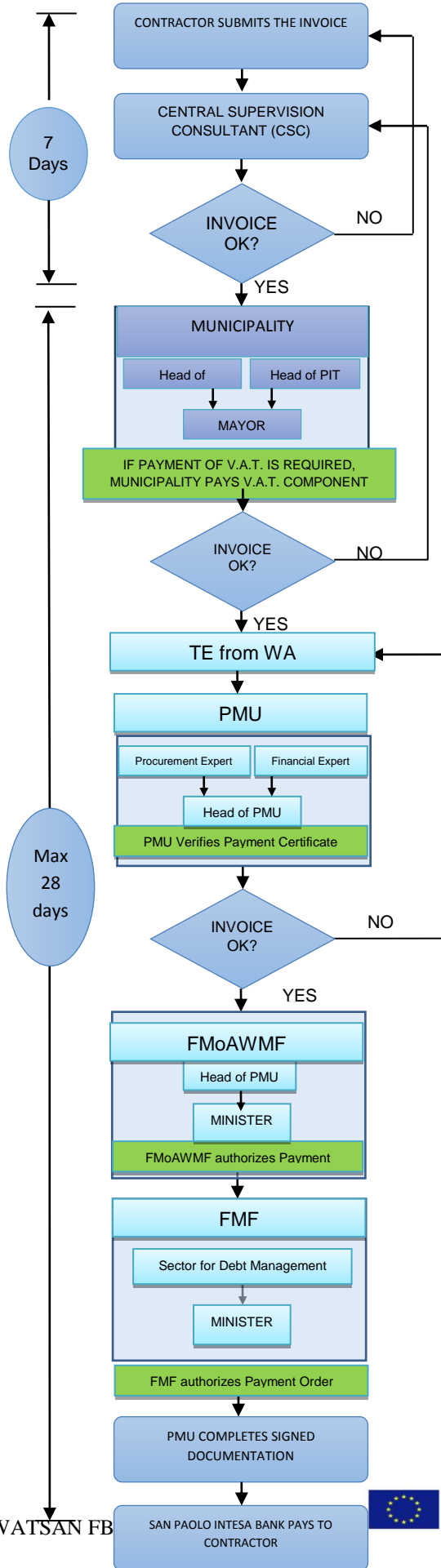
The CB shall process the net value payment to the Contractor account within one working day following the receipt of the payment instruction.

Originals of the signed Payment Certificate and Payment Order (by both Ministries) will contain documents that have been submitted by Municipality (Municipal payment request, signed Contract between Municipality and Contractor, bank statement, proofs that the V.A.T. and any other expenses have been paid) and shall be placed in the file by FE at PMU and recorded within the FMS software for the accounting and auditors use.

2.8 Payment Completion

Payments from special accounts to Contractors/Consultants will be centralized and managed directly by FMF, with operational help by FE at PMU, under direct supervision of the Head of PMU. When payments are made to local Contractors/Consultants, a corresponding amount of foreign currency (EUR) is exchanged in (KM) and credited to the foreign currency transaction account, and upon that, this amount is transferred to the respective Contractors/Consultants' bank account. If a payment needs to be made to foreign Contractors/Consultants in foreign currency (EUR), then the corresponding amount in foreign currency (EUR) will be directly transferred to the respective Contractors/Consultants' bank account.

Appendix A: Contractor Payment Procedure Flowchart



Appendix B – PMU Financial Recording and Reporting System

Financial management system for WATSAN FBIH Project is based on reporting templates described in grant agreements, including:

Chart 3: Budget and financing plan by contract

Chart 3 Summary: Budget and financing plan for the Project

Chart 4: Implementation by contract

Chart 4 Summary: Implementation of investment in the municipalities of the Project

Chart 6: Justification of expenses per tranche of grant/loan disbursement

Chart 7: Justified expenses of grant per municipality

Chart 8: List of paid invoices

Templates from agreements are slightly modified in order to include all Project funding sources in one template.

Chart 3 (and Chart 3 Summary), Chart 7 and Chart 4 (and Chart 4 Summary) should be updated semi-annually, in accordance with the Loan and Grant Agreements, but one version of Chart 4 should also be updated every month. Chart 8 should be updated with every transaction, same as Chart 6.

Financial management system is composed of four MS Excel files to be used at PMU. Reports produced out of these files shall be shared with PITs.

These files contain macros and VBA code so **macros must be enabled in MS Excel**.

FMS files are:

1. WSFBIH_PIT_FMS
2. WSFBIH_PMU_SA_Report
3. WSFBIH_PMU_Monthly_Report
4. WSFBIH_PMU_Account_Statement

1 WSFBIH_PIT_FMS

WSFBIH_PIT_FMS files shall be used in PMU by financial expert.

In WSFBIH_PIT_FMS file user should fill in only cells marked in yellow (all other cells will be locked). File is constituted from 3 summary sheets and 15 sheets for each contract:

Sheet Chart 3: User fills in name of **Municipality** and **Contract number and Contract name** of each contract. All other data are linked from contract sheets.

Sheet Chart 4: User fills in Report **date** for semi-annual report and for monthly report. By pressing buttons for each report respectively, user runs macro which invokes related macros in all 15 contract sheets. Chart 4 tables in all contract sheets will be updated and summary Chart 4 data will be updated accordingly. Precondition for accurate report is to have transactions for each contract sheet updated, see explanation for button “Record entries” in contract sheets.

Sheet Chart 7: Tables for each source of funding are automatically updated every time transactions for each contract are entered and recorded).

Sheets Contract_1 - Contract_15: Contract data: Contract name and Contract number are linked from the Chart 3 sheet. User needs to fill in the yellow cells in a table Chart 3 for financing plan, and also every new transaction in a list of invoices: table Payment Tracking. In the Chart 3 table, financing plan, user shall fill in **Initial budget** and **Updated/contracted budget** for relevant expenditure types and disbursement plan data for each source of funds separately. A new transaction in the table Payment Tracking is input by selecting **Type of expenditure** and **Fund source**, and entering the relevant payment data: **Invoice number**, **Invoice date**, dates when invoice is received by: supervisor, PIT, PMU, FMF, **Payment order to bank date**, **Bank statement number**, **Payment date**, **BAM Amount** and **EUR Amount** (excluding VAT). After the input of a new transaction, user shall click on the icon “Record entries” to record transaction data in tables that are hidden for user, and which are used for producing final reports. The contract sheets also contain tables for semi-annual and monthly progress reports, which are updated by clicking the related icons. The report dates are defined in Sheet Chart 4.

2 WSFBIH_PMU_SA_Report

WSFBIH_PMU_SA_Report file is used in PMU by financial expert. It contains 6 sheets:

Chart_3_Summary;

Chart_4_Summary;

Chart_7_EIB_Loan;

Chart_7_IPA2008;

Chart_7_IPA2009;

Chart_7_SIDA.

Tables are populated by linked summary data from related tables from WSFBIH_PIT_FMS files for each municipality.

3 WSFBIH_PMU_Monthly_Report

WSFBIH_PMU_Monthly_Report file is used at PMU by PMU financial expert. It contains only one sheet: Chart_4_Summary on monthly basis. Table in the file is populated by linked summary data from related tables from WSFBIH_PIT_FMS files for each municipality.

4 WSFBIH_PMU_Account_Statement

WSFBIH_PMU_Account_Statement file is used at PMU by PMU financial expert. It contains 4 sheets, one for each of the special bank accounts: EIB Loan Account, IPA 2008 Grant Account, IPA 2009 Grant Account and SIDA Grant Account. User fills in data for every transaction made within the Project, in the appropriate sheet regarding the funding source concerned.

Figure showing PMU Financial Management System

